

# **How to Administer Projects**

**A Guide to**

**IDRC's**

**Financial**

**Procedures**

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# **HOW TO ADMINISTER PROJECTS**

## ***A Guide to IDRC's Financial Procedures***

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## INTRODUCTION

IDRC hopes that this booklet will give our grant recipients a better understanding of IDRC policies and that it will clarify a number of recurring questions and issues.

Comments and questions are welcomed and should be addressed to

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## **IDRC FINANCIAL PHILOSOPHY**

IDRC believes that administrative infrastructure plays a supporting role in an organization's research efforts. Too often, however, financial administration is regarded as a means to police research activities through financial controls and restrictive regulations.

IDRC prefers to encourage a "team approach," in which researchers work in cooperation with their administrative counterparts. In this spirit, pertinent financial information is passed to program officers, who work closely with IDRC financial staff.

IDRC staff need regular and detailed financial reports from projects. This information enables IDRC to respond quickly to a request for a budget amendment and to monitor a project's progress.

Accordingly, IDRC emphasizes **flexibility** in its approach to project-budget administration. Maintaining an accurate budget for a long-term project, which may unexpectedly change, is difficult. There are also problems of foreign exchange, rising costs, delays in obtaining equipment and supplies, shortages of personnel, etc. The Centre allows for these problems as much as possible in its administrative procedures.

Institutions differ in their accounting systems, reporting methods, and in their general administrative practices. **As a donor agency, IDRC expects certain minimum standards but does not want research projects to suffer as a result of overly stringent regulations.** The following guidelines should be interpreted in light of this philosophy.

## **PROJECT BUDGET ADMINISTRATION**

### ***General Components of Project Budgets***

The components of a budget for an IDRC-assisted project vary, depending on the type and complexity of the research. Costs may be covered for staff hired specifically for the project but IDRC does not gen-

erally permit gratuities for existing staff. IDRC may provide funds for staff replacement and operating costs, such as hiring casual labour and purchasing small tools, materials to build prototypes, field and laboratory supplies, and other items needed to carry out the research. The project may also require capital equipment.

Researchers may have to travel locally or abroad to carry out the research or to exchange research-related information. Information services, some of which are available through the IDRC Library, may also be needed. These services include purchases of books, computerized searches, and subscriptions to periodicals. Depending on the project's complexity, consultants may be hired to advise the researchers on specific, anticipated problems.

IDRC will consider short-term training — preferably conducted within the recipient's country or region — for project staff who need it to carry out IDRC-funded research. The project might include workshops to share research results, help formulate government policies, develop further research programs, and/or extend the research results to the intended beneficiaries. Funds might also be allocated for publishing the final project report. Additional types of research costs may be identified and considered for inclusion in the project budget. IDRC, however, does **not** provide funding for permanent structures such as buildings.

### ***Basic Structure of Project Budgets***

The budget for an IDRC-assisted project has two parts: the recipient-administered portion (RAP) and the Centre-administered portion (CAP). IDRC prefers that the recipient administer as much of the grant as possible, reducing the portion administered by IDRC. IDRC has ten standard budget line items that are to be used when preparing project budgets. They are: salaries, research expenses, capital equipment, conferences, consultants, training, travel,

dissemination, support services and overhead, and coordination (see Appendix 1).

RAP is that part of the budget that will be entirely administered by the recipient. The recipient will have full authority to use these funds to hire full-time or part-time project staff and purchase the necessary field supplies and other materials and equipment specified in the budget. In certain countries, it is virtually impossible to acquire the foreign currency needed to pay for goods and services purchased outside the country. In these cases, IDRC will pay the suppliers on behalf of the recipient. The recipient, however, must handle all contracting and purchasing arrangements. These types of payments are considered part of the RAP.

CAP covers those expenditures that have been agreed upon for the project but, because of their nature, are administered by IDRC. These funds are generally spent by IDRC after consultation with the recipient. In most cases, the recipient must provide complete details related to the budgeted activity or purchase. For instance, under training, the names of the trainees, the type of training programs required, and the names of suitable training institutions should be provided. If the IDRC program officer responsible for the project agrees with the request, then the Centre deals directly with the training institution and pays the required amount.

### ***Nature of Local Contributions***

The Memorandum of Grant Conditions (MGC) is the legal contract between IDRC and the recipient; it specifies the administrative responsibilities as well as the grant conditions. In addition to describing IDRC's contributions, the MGC outlines the recipient's own commitment to the project's funding. This may be either an actual allocation of funds (cash contribution) or the monetary equivalent of an allocation of staff and materials (in-kind contribution).

## **PROJECT ACCOUNTING AND ADMINISTRATIVE AND INTERNAL CONTROL**

### ***Accountant***

Ideally, the person responsible for maintaining the project's financial records should be a qualified accountant, preferably working under the supervision of the recipient's finance officer.

### ***Accounting System***

A project's accounting system should be effective and provide a convenient means for extracting information for financial reporting. The recipient must account separately for the funds received and for the funds spent on each project. The institution's books of accounts must clearly segregate the information on each project. Different institutions have different systems; IDRC accepts any system that meets the Centre's basic accounting requirements.

### ***Accounting Records***

The basic record kept by most recipients is a **project ledger**, which accounts for expenditures incurred from day to day using the project's budget headings. Some recipients use a **budgetary control record** that compares budgeted with actual expenses over regular (e.g., monthly) periods. A more detailed variation of the budgetary control record is the **fund balances record**, which shows the budget balance of every item after each expenditure. Some recipients have also found a **cash book** to be useful.

### ***Treatment of Common Expenses in a Multidonor Project***

When IDRC is one of several donors, the accounting for common expenses (i.e., the expenses shared by two or more donors) may be done in one of several ways. For instance, expenses can be prorated on the basis of each donor agency's approved budget for

specific items (e.g., if donor A is to contribute \$20,000 and IDRC \$10,000 to a \$30,000 research expense, the sharing would be in the ratio 2 to 1). Alternatively, expenses can be divided on the basis of total project costs. This approach simplifies accounting because the total costs are simply split in proportion to the level of funding.

In both cases, however, expenses should be accounted for on a day-to-day basis under the respective budget headings without being split among the donors. To facilitate bookkeeping, splitting should be done only when the financial reports are being prepared.

### ***Ownership of Project Equipment***

Equipment purchased with IDRC funds becomes the property of the recipient institution, which is responsible for the equipment's proper upkeep, maintenance, and use. The equipment is expected to be dedicated solely to the project until the project ends. From that point, the recipient must bear all costs associated with the equipment.

### ***Administrative and Financial Control***

As a donor agency, IDRC insists that recipients have administrative and financial controls. These should not, however, be so stringent as to hamper the project. The recipient institution should be able to administer IDRC-assisted projects using its own standard procedures. Routine administrative procedures cover such aspects as hiring personnel and purchasing equipment and supplies; internal checks include documentation and approval for payments and authorization for cheques. In the event of difficulties, IDRC may request that recipients review particular administrative or financial operations for possible improvements.

## **PROJECT REPORTS**

### ***Nature and Submission of Project Reports***

The MGC specifies the frequency of reporting. Recipients normally submit two reports annually to IDRC; one on the project's technical progress and the other on its finances. These two reports are normally submitted at the same time, although a recipient may submit them separately after consultation with IDRC staff. For example, a recipient may ask to submit separate reports if the cropping year ends on 31 December and the financial year on 31 March.

This publication provides details only on the financial report, which must be submitted on or before the date stipulated in the MGC unless a new date has been negotiated with IDRC. **Recipients experiencing cash-flow problems before the scheduled payment date should submit their financial report as early as possible.**

### ***Uses***

Financial reports are extremely important. Project leaders must be constantly aware of the financial status of their projects. Excess funds mean that activities have been either overbudgeted or not performed on schedule. Fund deficits mean either that expenditures have been underestimated (perhaps because of economic conditions outside the institution) or that unplanned activities are taking place. Budget discrepancies often point to a need to review project activities — a change in one area of activity usually affects the whole project. Project leaders, therefore, can use financial information as a measure of the project's overall progress and as an indicator of the need to correct problems.

### ***Contents***

The financial report should provide enough details for both the recipient and IDRC to appraise the project's financial situation. It should:

- ◆ Be presented in the same format (i.e., using the same budget items) as the budget portion of the MGC (see Appendix 2: Sample Financial Report).
- ◆ Clearly state the period covered (e.g., from 1 January to 31 December 19\_\_); an explanation should be provided if the opening and closing dates covered by the report differ from those in the MGC.
- ◆ Report expenditures on a cash basis. Accrued expenses that have been incurred but not yet paid, such as invoices for goods and services, should be included with the estimates for the next period.
- ◆ Report expenditures in the recipient's national currency, indicating the name of the currency. For institutions that keep and pay their accounts in United States dollars (USD), the US dollar is considered the national currency.
- ◆ Include a summary of funds received from IDRC, indicating both the amounts in Canadian dollars (CAD) and the equivalent in national currency. The summary will either be a list of payments received, specifying the date each installment was received, or a list summarizing the transfers from a foreign currency account (e.g., USD) to the national currency account by month or quarter. The institution must be able to provide details of each transfer if required by IDRC. This information confirms that the recipient has received the correct payments. It also serves as IDRC's basis for calculating the weighted average exchange rate for converting expenditures in national currency into Canadian dollars.
- ◆ Include estimated expenditures for the next payment period.
- ◆ Contain a list of the equipment purchased.
- ◆ Include an analysis of variations between budgeted and actual expenses as well as notes

explaining any cost overruns on main budget headings (more than 10% and 1,000 CAD).

- ◆ Include other project income, if applicable.
- ◆ Provide an analysis of the cash position of the project at closing date.
- ◆ **Be signed by both the project leader and the recipient's finance officer.**

#### ***Estimated Expenses for the Next Payment Period***

**It is important that recipients submit estimates of expenses along with the report of actual expenditures.** These estimates (including accrued expenses) give recipients the flexibility to modify the schedules of activities. The total actual and future payments, however, should be within the limits of the approved grant. The submission of estimated expenditures also allows recipients to seek approval for any major budgetary changes.

#### ***Processing a Recipient's Financial Report***

The report is analyzed by IDRC staff who:

- ◆ Calculate a weighted average rate of exchange that is then used to convert national currency into Canadian dollars.
- ◆ Compare actual with budgeted expenses. An analysis is made of any discrepancies in both the national currency and Canadian dollars.
- ◆ Review estimated expenses to see how they will affect the next payment period.
- ◆ Review the project's file, with particular attention to whether the project will finish by its expected completion date.
- ◆ Analyze the project's cash position.

The results of the analysis, which may include observations and queries about the project's financial results, as well as payment or nonpayment of funds, are then conveyed to the IDRC program officer concerned.

The submission and presentation of financial reports largely determine the speed with which IDRC releases funds to a recipient. In many cases, questions need to be asked and answered (a process that can be time-consuming) before IDRC can properly evaluate the project's financial standing and release payments. **Punctual and complete submissions of financial reports are a must.**

## **PROJECT PAYMENTS**

### ***Basic Scheme***

IDRC normally makes payments at six-month intervals. There are generally two types — automatic payments and payments requiring submission of reports. The initial and all even-numbered payments are normally automatic, whereas the odd-numbered ones (i.e., third, fifth, etc.) usually require prior submission of reports on the project's financial and technical progress. **Payment is made only after IDRC staff analyze the technical and financial reports. Payment depends on the cash position of the project, the estimated future expenses, and the recipient addressing satisfactorily any queries raised in the analysis.**

### ***Mode***

The common methods that IDRC uses to release funds are telegraphic transfers, bank drafts, and cheques. It is important to determine the best way to send money to avoid any unnecessary delays. Recipients should discuss this issue with their bankers and then inform IDRC of their banking arrangements when the MGC is signed.

### ***Project Bank Account***

Grant payments from IDRC can only be made to **institutional accounts**. Any interest income must be recorded as income to the project.

## ***Unused Funds***

As stated in the MGC, all unused funds are to be returned to the Centre on completion of the project.

## ***Reporting the Centre-Administered Portion***

Some recipients require information on actual payments made by IDRC from the CAP to satisfy their government's requirements for reports on foreign assistance. Others need the information for planning (e.g., are funds available for further international travel or consultancies?). This information is available on request at any time during the project through the program officer.

## ***Foreign Exchange Fluctuations***

Recipients can request that the Centre make up any loss caused by a major depreciation in the value of the Canadian dollar that cannot be covered by project funds. On the other hand, if the value of the Canadian dollar increases, IDRC will expect savings in the national currency for planned expenditures. These possibilities highlight the importance of preparing the budget, reporting the receipt of funds, and reporting expenditures in national currency. With this information, both the recipient and IDRC are able to determine the effect of exchange differences on the project budget.

## **GENERAL PROJECT POLICIES**

### ***Delays in Commencement***

From IDRC's viewpoint, the project starts either on the date the MGC is signed or on the date specified by the MGC. Projects are sometimes delayed, however, because of difficulties in hiring personnel, preparing facilities, or purchasing essential equipment. In such cases, recipients should notify IDRC as soon as possible so that a change in the completion date can be considered.



### ***Expenses before the Commitment Date***

As a general policy, IDRC does not provide funds for expenses incurred before the recipient signs the MGC. In rare cases, however, these expenses will be considered. IDRC approval for these expenses must be obtained in advance.

### ***Budget Revisions***

Project expenditures should be kept within the approved budget, although unforeseen circumstances sometimes require changes to ensure that the project meets its objectives. There are normally three types of budgetary changes:

- ♦ **Horizontal transfers** when budgets need to be changed to match revisions in the timing of activities. Recipients can make such transfers without prior formal IDRC approval if they do not involve an extension of the project. When expenditures on a budgetary item (e.g., salaries) for a particular period differ from the budget, the budget for the remaining time must be decreased or increased correspondingly. IDRC accepts such a change as long as the total budget for an item is not exceeded. **Nevertheless, recipients should provide an explanation in the next financial report to show that overall project objectives remain unaltered.**
- ♦ **Vertical transfers** when an expenditure **exceeds** the major budget line items because of inflation, underestimates, program changes, etc. If the transfer exceeds the original budget by 10% and 1,000 CAD or more, **the recipient must justify the transfer to IDRC and seek prior approval.** IDRC will consider sources of transfers, perhaps savings from other line items within the RAP of the budget or shifts from some unspent items in the CAP.
- ♦ **New line items.** Requests for new line items during the project need prior justification and IDRC approval.

When budgetary changes for vertical transfers or new line items exceed the total grant, the recipient and IDRC must review the estimates for savings on other expenses. As a last resort, a supplementary grant may be considered after discussions with IDRC representatives and a full justification of the amount involved.

To avoid budget overruns, IDRC encourages careful planning and estimating at the project's conception. If errors are made, either in planning or implementation, the reasons must be determined so that the recipient and IDRC can together seek a solution.

### ***Disposition of Project Income***

Certain projects generate income from interest paid on bank deposits or from the sale of livestock, grain, other produce, processed food items, or publications. All income must be properly accounted for, reported to IDRC, and included in the analysis of the cash portion of the project at the reporting date.

## **APPENDIX I: STANDARD PROJECT BUDGET CATEGORIES**

### **SALARIES**

Salaries include all remuneration, allowances, and benefits paid to recipient project staff and to project advisors hired for a specific project. Project advisors are people hired for fairly long periods and paid regular sums.

### **RESEARCH EXPENSES**

Research expenses encompass services and materials (including reference materials) required to carry out the research. They can include: remuneration paid to people gathering data and information; maintenance and operations costs for project vehicles; the cost of consumable goods or non-capital equipment such as photocopier supplies; the cost of maintaining other research equipment; the cost of computer services; honoraria paid to project advisors; the cost of local travel; the purchase of monographs, serials, videos, cassettes, and reference materials for a project; the cost of casual labour; and rent paid for land or premises used in a research activity.

### **CAPITAL EQUIPMENT**

This category covers equipment, purchased by either the recipient or IDRC on behalf of the recipient, that has a useful life of more than one year and costs over 1,000 CAD per item, and includes the basic purchase price, any related sales tax, identifiable freight costs, and other order-filling costs. IDRC, however, does not pay import duties as most country agreements exempt IDRC from paying them. Examples of capital equipment are micro-computer hardware and related software, microfich-

ing equipment, office furniture, etc., with a cost of over 1,000 CAD.

## CONFERENCES

This category covers the costs of attending project-related seminars, meetings, and conferences that may be organized by the recipient. Examples include accommodation, travel, registration fees, catering services, rental of audiovisual equipment, and honoraria for presentation of papers or advisory board attendance. This category **does not cover** the cost of conferences held specifically to disseminate IDRC research results. These activities are to be reported under dissemination.

## CONSULTANTS

This category covers all expenses related to acquiring the services of a consultant for a specific activity within the project. The consultant should provide expert professional advice to project staff. He or she usually works on a “fee for service” basis. Compared with project advisors (see Salaries), consultants are contracted for shorter periods to work on specific assignments. Costs may include fees, travel, accommodation, living expenses, and support services hired directly by the consultant and billed to the project.

The total cost for each consultant should be reported as a lump sum in the budget line item and, in the budget notes, a breakdown should be given, even if only an estimate. If this is not feasible, however, the budget notes should include an explanation as to why only a lump sum can be provided.

## TRAINING

This budget line item covers a trainee’s registration and tuition fees, living and other allowances, research and training expenses, and travel costs during his or her participation in degree or diploma

programs, short courses, student fieldwork, postdoctoral training, or other scholarly activities. The training budget should be reported in four categories based on the type of training being supported:

- ◆ PhD — study leading to a PhD degree;
- ◆ Master’s — study leading to a Master’s degree;
- ◆ Short course — study leading to a diploma or certificate;
- ◆ Other — all other scholarly activities, such as fieldwork, postdoctoral study, etc.

Training for project staff that relates to the implementation of research activities should be shown under Research Expenses.

## TRAVEL

This category covers costs incurred by project staff **outside** the local research area. (All local travel is to be reported under Research Expenses.) Included are costs of transportation, accommodation, meals, airport and exit taxes, and other related items.

NOTE: Travel costs specifically related to research expenses (local travel), training, dissemination, evaluation, and coordination should be reported under **these specific budget items** rather than under travel.

## DISSEMINATION

This budget category covers all IDRC dissemination activities. It includes the costs of project-related seminars, meetings, or conferences that may be organized by the recipient for the purpose of disseminating IDRC-funded research results. Examples include accommodation, travel, registration fees, catering services, rental of audiovisual equipment, and honoraria for presentation of papers or advisory board attendance. Dissemination also includes the costs of reproduction, publication, distribution, and preparation of project outputs (such as publications, bibliographies, abstracts, databases, etc.).

## **SUPPORT SERVICES ...**

Support services should only encompass those administrative costs that are not directly related to research. They can include: clerical, accounting, or secretarial help; general office expenses; office accommodation, rent, and utility charges; non-capital office furnishings and equipment under 1,000 CAD; communications, couriers, telex, and postage expenses; computer services of an administrative nature, unrelated to research data analysis or compilation; and general office and administrative photocopying and reproduction costs.

## **... AND OVERHEAD**

The Centre expects the recipient to absorb the overhead or administrative costs of a project as part of its local contribution. If the recipient will not or cannot do so, however, IDRC will contribute overhead costs up to a maximum of 13% of all recipient-administered costs, excluding capital equipment costs. If overhead is charged to IDRC, then direct administrative costs such as office supplies, communications costs, etc., are not to be included in the budget (either in the RAP or the CAP).

If support services and overhead are charged to IDRC's contribution, the total of the two must be within the 13% limit. Exceptions must be documented in the budget notes.

## **COORDINATION**

This category covers expenses related to the coordination of a project, whether it is a network covering recipient institutions in several countries, several institutions within a country, or several components (or subprojects) within an institution. The coordination function involves overseeing the various components of a project to ensure that all concerned follow the same objectives and approaches, including budgetary monitoring. Expenses for this cate-

gory may include the direct costs associated with the coordinator and his or her staff's salaries, allowances, honoraria, and travel; and expenses to run the coordinating unit such as office expenses, rent, and communication. The prorating of budget costs between this line item and other line items is **not** permitted. Any cost that is not entirely associated with coordination activities is termed an indirect cost and, as such, must be reported under another line item.

## APPENDIX 2: SAMPLE FINANCIAL REPORT

Project title:

Centre file:

Financial report for the period (1) from \_\_\_\_\_ to \_\_\_\_\_

Items (2)	Budget (3)	Cash expenses (4)	Variance (5)	Explanation of variance (6)
Salaries				
Research assistants (two)	33,600	33,400	200	
Secretary/administrative assistant	9,600	9,600	—	
	<u>43,200</u>	<u>43,000</u>	<u>200</u>	
Research expenses				
Casual labour	12,800	12,000	800	
Printing and stationery	8,900	7,000	1,900	
Field supplies	6,000	5,500	500	
Local travel	12,000	11,000	1,000	
Small tools and implements	4,000	3,900	100	
	<u>43,700</u>	<u>39,400</u>	<u>4,300</u>	
Conferences	0	0	0	
Total	<u>86,900</u>	<u>82,400</u>	<u>4,500</u>	

Submitted by:

\_\_\_\_\_  
Project leader

\_\_\_\_\_  
Institution's finance officer

### Notes

(1) Covers the immediate past year (12-month period).

(2) Use exact budget headings (including specific budget items) as detailed in the Memorandum of Grant Conditions. However, new budget line items should be shown separately.

(3) Use budget figures from the Memorandum of Grant Conditions.

(4) Figures in local currency.

(5) Difference between budget (3) and actual expenses (4).

(6) Reasons for overruns/underruns/new items. Use additional sheet if necessary.

### Summary of IDRC remittances

Date received	Amount	
	CAD	Local currency equivalent
4 January 19__	6,700	44,220
1 June 19__	6,700	44,890

Project title:

Centre file:

Statement of estimated expenses for the period (1) from \_\_\_\_\_ to \_\_\_\_\_

Items (2)	Budget (3)	Estimated expenses (4)	Estimated variance (5)	Explanation of estimated variance (6)
Salaries				
Research assistants (two)	36,960	36,700	260	
Secretary/administrative assistant	10,560	10,560	—	
	47,520	47,260	260	
Research expenses				
Casual labour	8,000	7,500	500	
Printing and stationery	500	2,000	(1,500)	
Field supplies	4,000	4,000	—	
Local travel	10,000	11,000	(1,000)	
Small tools and implements	0	—	—	
	22,500	24,500	(2,000)	
Conferences	20,000	20,000	—	
Total	90,020	91,760	(1,740)	

Submitted by:

\_\_\_\_\_  
Project leader

\_\_\_\_\_  
Institution's finance officer

#### Notes

- (1) Covers the next year (12-month period) or for remaining project duration if less than one year.
- (2) Use exact budget headings (including specific budget items) as detailed in the Memorandum of Grant Conditions.
- (3) Use budget figures from the Memorandum of Grant Conditions. If the original budget had been previously revised after IDRC's approval, the budget figures here should refer to the revised estimates.

- (4) Estimates based on latest project plans and current cost expectations in local currency.
- (5) Difference between original budget (3) and estimated expenses (4).
- (6) Reasons for overruns/underruns. Use additional sheet if necessary.